

**REPORT OF THE AUDIT OF THE
CARTER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Charles Wallace, Carter County Judge/Executive

Members of the Carter County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountants, presents the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements.

We engaged Morgan-Franklin, LLC, Certified Public Accountants, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Morgan-Franklin, LLC, Certified Public Accountants evaluated Carter County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Pubic Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
CARTER COUNTY FISCAL COURT**

June 30, 2009

Morgan-Franklin, LLC has completed the audit of the Carter County Fiscal Court for fiscal year ended June 30, 2009. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Carter County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$5,986,267 as of June 30, 2009. The fiscal court had unrestricted net assets of \$1,627,858 in its governmental activities as of June 30, 2009, with total net assets of \$5,930,150. In its business-type activities, total cash and cash equivalents were \$43,731 with total net assets of \$56,117. The fiscal court had total debt principal as of June 30, 2009 of \$11,903,919 with \$540,000 due within the next year.

Report Comments:

- 2009-1 The County Should Pay Invoices Within Thirty Days Of Receipt Of A Vendor's Invoice As Required By KRS 65.140 And Improve Internal Controls Over Expenditures
- 2009-2 The Fiscal Court Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- 2009-3 The Fiscal Court Lacks Adequate Segregation Of Duties
- 2009-4 The Carter County Treasurer Should Code All Debt Expenditures To A Debt Account Code And Liability Schedules Should Be Complete And Accurate
- 2009-5 The County Should Comply With The Administrative Code, Personnel Policy And Procedures And The County's Agreement With The International Union Of Operating Engineers Local 181 (Union Contract) And Clearly Define Which Policies Apply To Which Employees

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Charles Wallace, Carter County Judge/Executive
Members of the Carter County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Carter County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Carter County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined to be necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
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Members of the Carter County Fiscal Court

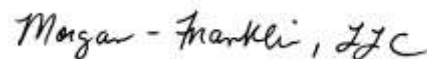
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Carter County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2009, on our consideration of Carter County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-1 The County Should Pay Invoices Within Thirty Days Of Receipt Of A Vendor's Invoice As Required By KRS 65.140 And Improve Internal Controls Over Expenditures
- 2009-2 The Fiscal Court Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- 2009-3 The Fiscal Court Lacks Adequate Segregation Of Duties
- 2009-4 The Carter County Treasurer Should Code All Debt Expenditures To A Debt Account Code And Liability Schedules Should Be Complete And Accurate
- 2009-5 The County Should Comply With The Administrative Code, Personnel Policy And Procedures And The County's Agreement With The International Union Of Operating Engineers Local 181 (Union Contract) And Clearly Define Which Policies Apply To Which Employees

Respectfully submitted,



Morgan-Franklin, LLC

December 18, 2009

CARTER COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

Charles Wallace	County Judge/Executive
Lovell Carper	Magistrate
Judy Roark	Magistrate
Millard Cordle	Magistrate
William Webb	Magistrate
James Wilburn	Magistrate

Other Elected Officials:

Robert Miller	County Attorney
Randy Binion	Jailer
Mike Johnston	County Clerk
Larry Thompson	Circuit Court Clerk
Kevin McDavid	Sheriff
Charles Kiser	Property Valuation Administrator
George Sparks	Coroner

Appointed Personnel:

Cindy Lowe	County Treasurer
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CARTER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

CARTER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,627,858	\$ 43,731	\$ 1,671,589
Total Current Assets	1,627,858	43,731	1,671,589
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	942,900		942,900
Buildings	11,327,764		11,327,764
Equipment	649,801	12,386	662,187
Vehicles	142,383		142,383
Infrastructure	3,143,363		3,143,363
Total Noncurrent Assets	16,206,211	12,386	16,218,597
Total Assets	17,834,069	56,117	17,890,186
LIABILITIES			
Current Liabilities:			
General Obligation Bonds	130,000		130,000
Revenue Bonds	310,000		310,000
Financing Obligations	100,000		100,000
Total Current Liabilities	540,000		540,000
Noncurrent Liabilities:			
General Obligation Bonds	5,295,000		5,295,000
Revenue Bonds	5,510,000		5,510,000
Financing Obligations	558,919		558,919
Total Noncurrent Liabilities	11,363,919		11,363,919
Total Liabilities	11,903,919		11,903,919
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	4,302,292	12,386	4,314,678
Unrestricted	1,627,858	43,731	1,671,589
Total Net Assets	\$ 5,930,150	\$ 56,117	\$ 5,986,267

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

CARTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,180,155	\$	\$ 789,525	\$ 127,884
Protection to Persons and Property	2,924,604	1,624,989	544,941	
General Health and Sanitation	144,542			287,979
Recreation and Culture	18,505			
Roads	1,305,051		1,801,123	
Transportation Facilities and Services	48,845			
Interest on Long Term Debt	556,963			
Total Governmental Activities	7,178,665	1,624,989	3,135,589	415,863
Business-type Activities:				
Jail Canteen	32,032	43,556		
Total Business-type Activities	32,032	43,556		
Total Primary Government	\$ 7,210,697	\$ 1,668,545	\$ 3,135,589	\$ 415,863

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Insurance Premium Taxes
Other Taxes
In Lieu Tax Payments
Excess Fees
Licenses and Permits
Interest
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,262,746)	\$	\$ (1,262,746)
(754,674)		(754,674)
143,437		143,437
(18,505)		(18,505)
496,072		496,072
(48,845)		(48,845)
(556,963)		(556,963)
(2,002,224)		(2,002,224)
	11,524	11,524
	11,524	11,524
(2,002,224)	11,524	(1,990,700)
433,682		433,682
23,952		23,952
112,001		112,001
684,367		684,367
353,386		353,386
30,849		30,849
123,564		123,564
37,526		37,526
8,938		8,938
500,006		500,006
2,308,271		2,308,271
306,047	11,524	317,571
5,624,103	44,593	5,668,696
\$ 5,930,150	\$ 56,117	\$ 5,986,267

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

CARTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Enhanced 911 Fund
ASSETS					
Cash and Cash Equivalents	\$ 532,240	\$ 540,258	\$ 116,455	\$ 91,219	\$ 135,072
Total Assets	<u>532,240</u>	<u>540,258</u>	<u>116,455</u>	<u>91,219</u>	<u>135,072</u>
FUND BALANCES					
Reserved for:					
Encumbrances	86,841	72,918	76,259	120,441	27,267
Unreserved:					
General Fund	445,399				
Special Revenue Funds		467,340	40,196	(29,222)	107,805
Capital Projects Funds					
Total Fund Balances	<u>\$ 532,240</u>	<u>\$ 540,258</u>	<u>\$ 116,455</u>	<u>\$ 91,219</u>	<u>\$ 135,072</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,627,858
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	21,964,565
Accumulated Depreciation	(5,758,354)
Debt is Not Due and Payable in the Current Period and, Therefore, is Not	
Reported in the Funds.	
Financing Obligations	(658,919)
Bonded Debt	<u>(11,245,000)</u>
Net Assets Of Governmental Activities	<u>\$ 5,930,150</u>

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2009
(Continued)

Justice Center Corporation Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 198,158</u>	<u>\$ 14,456</u>	<u>\$ 1,627,858</u>
<u>198,158</u>	<u>14,456</u>	<u>1,627,858</u>
		383,726
		445,399
	14,456	600,575
<u>198,158</u>	<u>14,456</u>	<u>198,158</u>
<u>\$ 198,158</u>	<u>\$ 14,456</u>	<u>\$ 1,627,858</u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

CARTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Enhanced 911 Fund
REVENUES					
Taxes	\$ 1,394,099	\$	\$	\$	\$ 209,421
In Lieu Tax Payments	30,849				
Excess Fees	123,564				
Licenses and Permits	37,526				
Intergovernmental	598,476	1,574,573	1,602,303	540,630	188,844
Charges for Services	972		13,858	85,543	
Miscellaneous	76,038	6,672	166,016	461	50
Interest	1,748	3,937	414	591	962
Total Revenues	<u>2,263,272</u>	<u>1,585,182</u>	<u>1,782,591</u>	<u>627,225</u>	<u>399,277</u>
EXPENDITURES					
General Government	1,140,714			15,700	
Protection to Persons and Property	18,040		1,555,967	342,298	517,300
General Health and Sanitation	49,004			87,565	
Recreation and Culture	18,000			505	
Roads		1,169,807		41,500	
Transportation Facilities and Services				48,845	
Debt Service	20,968	48,239	400,603	30,000	6,036
Administration	334,307	227,161	372,762	109,925	32,214
Total Expenditures	<u>1,581,033</u>	<u>1,445,207</u>	<u>2,329,332</u>	<u>676,338</u>	<u>555,550</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>682,239</u>	<u>139,975</u>	<u>(546,741)</u>	<u>(49,113)</u>	<u>(156,273)</u>
Other Financing Sources (Uses)					
Lease Proceeds					100,000
Transfers From Other Funds	137,801		602,801	31,000	
Transfers To Other Funds	(633,801)	(137,801)			
Total Other Financing Sources (Uses)	<u>(496,000)</u>	<u>(137,801)</u>	<u>602,801</u>	<u>31,000</u>	<u>100,000</u>
Net Change in Fund Balances	186,239	2,174	56,060	(18,113)	(56,273)
Fund Balances - Beginning	346,001	538,084	60,395	109,332	191,345
Fund Balances - Ending	<u>\$ 532,240</u>	<u>\$ 540,258</u>	<u>\$ 116,455</u>	<u>\$ 91,219</u>	<u>\$ 135,072</u>

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

	Justice Center Corporation Fund	Non- Major Funds	Total Governmental Funds
REVENUES			
Taxes	\$	\$ 3,868	\$ 1,607,388
In Lieu Tax Payments			30,849
Excess Fees			123,564
Licenses and Permits			37,526
Intergovernmental	569,098	237,914	5,311,838
Charges for Services			100,373
Miscellaneous	15,000		264,237
Interest	1,286		8,938
Total Revenues	<u>585,384</u>	<u>241,782</u>	<u>7,484,713</u>
EXPENDITURES			
General Government	5,738		1,162,152
Protection to Persons and Property		241,311	2,674,916
General Health and Sanitation			136,569
Recreation and Culture			18,505
Roads			1,211,307
Transportation Facilities and Services			48,845
Debt Service	583,098		1,088,944
Administration	1,410		1,077,779
Total Expenditures	<u>590,246</u>	<u>241,311</u>	<u>7,419,017</u>
Excess (Deficiency) of Revenues			
Over Expenditures Before Other			
Financing Sources (Uses)	<u>(4,862)</u>	<u>471</u>	<u>65,696</u>
Other Financing Sources (Uses)			
Lease Proceeds			100,000
Transfers From Other Funds			771,602
Transfers To Other Funds			(771,602)
Total Other Financing Sources (Uses)	<u></u>	<u></u>	<u>100,000</u>
Net Change in Fund Balances	(4,862)	471	165,696
Fund Balances - Beginning	203,020	13,985	1,462,162
Fund Balances - Ending	<u>\$ 198,158</u>	<u>\$ 14,456</u>	<u>\$ 1,627,858</u>

The accompanying notes are an integral part of the financial statements.

**CARTER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

CARTER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ 165,696
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Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	553,728
Depreciation Expense	(845,357)
The Issuance of Long-Term and Short-Term Debt (e.g. bonds, leases)	(100,000)

Provides Current Financial Resources to Governmental Funds, while Lease and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources. These transactions, however, have no effect on net assets.

Financing Obligation Payments	111,981
Bond Payments	420,000
Rounding Difference	(1)

Change in Net Assets of Governmental Activities	\$ 306,047
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CARTER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

CARTER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 43,731
Total Current Assets	<u>43,731</u>
Noncurrent Assets:	
Capital Assets:	
Equipment	
Less Accumulated Depreciation	<u>12,386</u>
Total Noncurrent Assets	<u>12,386</u>
Total Assets	<u>56,117</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	12,386
Unrestricted	<u>43,731</u>
Total Net Assets	<u><u>\$ 56,117</u></u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

CARTER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Enterprise Fund
	<hr/>
	Jail Canteen Fund
	<hr/>
Operating Revenues	
Canteen Receipts	\$ 43,556
Total Operating Revenues	<hr/> 43,556 <hr/>
Operating Expenses	
Educational and Recreational	3,484
Depreciation Expense	9,358
Salaries - Bookkeeping	5,148
Personal Care	8,739
Equipment	2,821
Miscellaneous	2,482
Total Operating Expenses	<hr/> 32,032 <hr/>
Operating Income	<hr/> 11,524 <hr/>
Change In Net Assets	11,524
Total Net Assets - Beginning	<hr/> 44,593 <hr/>
Total Net Assets - Ending	<hr/> \$ 56,117 <hr/>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

CARTER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 43,556
Payments to Vendors	<u>(22,674)</u>
Net Cash Provided By Operating Activities	<u>20,882</u>
Cash Flows From Financing Activities	
Principal Payments on Note Payable	<u>(1,509)</u>
Net Cash Provided by Financing Activities	<u>(1,509)</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of Property, Plant and Equipment	<u>(2,500)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(2,500)</u>
Net Decrease in Cash and Cash Equivalents	16,873
Cash and Cash Equivalents - July 1, 2008	<u>26,858</u>
Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 43,731</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 11,524
Plus: Depreciation Expense	<u>9,358</u>
Total Cash Provided By Operating Activities	<u><u>\$ 20,882</u></u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

CARTER COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	<u>Agency Fund</u>
	Jail Inmate Fund
	<u> </u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 19,947</u>
Total Assets	<u> 19,947</u>
Liabilities	
Amounts Held In Custody For Others	<u> 19,947</u>
Total Liabilities	<u> 19,947</u>
Net Assets	
Total Net Assets	<u><u> \$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Carter County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Carter County Justice Center Corporation

The Carter County Justice Center Corporation (the Corporation) is a legally separate entity established to provide long-term debt service to the Fiscal Court for the construction of a justice center facility. A majority of the Corporation's governing body is appointed by the Carter County Judge/Executive. Further, the Carter County Fiscal Court can significantly influence the Corporation's operations. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Carter County Elected Officials

Kentucky law provides for election of the officials noted below from the geographic area constituting Carter County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Carter County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary and fiduciary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation. 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues includes: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for funds received from state grants. These funds may be used for public safety, environmental protection, and economic development.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Enhanced 911 Fund - This fund accounts for the County's emergency operations and is supported primarily from telephone taxes.

Justice Center Corporation Fund - This fund accounts for the activities of the Carter County Justice Center Corporation, a blended component unit of the county. The Justice Center Corporation fund issued the debt to build the justice center. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major fund: Forestry Fund and Community Development Block Grant Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Enhanced 911 Fund, Forestry Fund and Community Development Block Grant Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Justice Center Corporation Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale on April 30, following delinquency date.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB statements or interpretations.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

All fiduciary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund, the Jail Inmate Fund, is used to account for inmate monies held by the jailer for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, non-depreciable land improvements, depreciable land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land, non-depreciable land improvements, and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	25-40
Buildings	\$ 25,000	30-40
Building Improvements	\$ 25,000	15-25
Machinery and Equipment	\$ 2,500	5-10
Vehicles	\$ 2,500	3-5
Infrastructure	\$ 20,000	15-25

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Justice Center Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually. The Department for Local Government does not require this fund to be budgeted.

J. Related Organizations and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Ambulance Service is considered a related organization of the Carter County Fiscal Court.

A jointly governed organization is an entity that results from a multi-governmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Northeast Kentucky Regional Industrial Park Authority meets the criteria noted above and is an organization jointly governed by the Kentucky Counties of Boyd, Carter, Elliott, Greenup, and Lawrence.

Note 2. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Bank Balances Insured By FDIC At June 30, 2009	\$ 170,388
Bank Balances Collateralized at June 30, 2009	<u>1,475,968</u>
Bank Balance At June 30, 2009	<u>\$ 1,646,356</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 942,900	\$	\$	\$ 942,900
Total Capital Assets Not Being Depreciated	942,900			942,900
Capital Assets, Being Depreciated:				
Buildings	14,055,727	65,808		14,121,535
Equipment	1,419,835	307,965		1,727,800
Vehicles	1,026,551			1,026,551
Infrastructure	3,965,824	179,955		4,145,779
Total Capital Assets Being Depreciated	20,467,937	553,728		21,021,665
Less Accumulated Depreciation For:				
Buildings	(2,452,079)	(341,692)		(2,793,771)
Equipment	(927,185)	(150,814)		(1,077,999)
Vehicles	(807,702)	(76,466)		(884,168)
Infrastructure	(726,031)	(276,385)		(1,002,416)
Total Accumulated Depreciation	(4,912,997)	(845,357)		(5,758,354)
Total Capital Assets, Being Depreciated, Net	15,554,940	(291,629)		15,263,311
Governmental Activities Capital Assets, Net	<u>\$ 16,497,840</u>	<u>\$ (291,629)</u>	<u>\$ 0</u>	<u>\$ 16,206,211</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Equipment	\$ 57,673	\$ 2,500	\$	\$ 60,173
Total Capital Assets Being Depreciated	57,673	2,500		60,173
Less Accumulated Depreciation For:				
Vehicles and Equipment	(38,429)	(9,358)		(47,787)
Total Accumulated Depreciation	(38,429)	(9,358)		(47,787)
Total Capital Assets, Being Depreciated, Net	19,244	(6,858)		12,386
Business-Type Activities Capital Assets, Net	\$ 19,244	\$ (6,858)	\$ 0	\$ 12,386

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 43,265
Protection to Persons and Property	464,237
General Health and Sanitation	7,973
Roads, Including Depreciation of General Infrastructure Assets	<u>329,882</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 845,357</u>

Business-Type Activities

Jail Canteen	<u>\$ 9,358</u>
Total Depreciation Expense - Business Activities	<u>\$ 9,358</u>

Note 4. Subsequent Review

Subsequent events have been evaluated through December 18, 2009, which is the date the financial statements were available to be issued.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt

A. Improvement Bonds, Series 2001

On May 1, 2001, the Carter County Fiscal Court issued \$6,105,000 of General Obligation Improvement bonds for financing the construction of the Carter County Detention Facility. The bonds require semiannual interest and principal payments to be made on May 1 and November 1 of each year. The interest rate is variable and was 4.20% during the fiscal year ended June 30, 2009. The interest payments commenced on November 1, 2001, and the principal payments commenced on May 1, 2003. As of June 30, 2009, the principal amount outstanding was \$5,425,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 130,000	\$ 270,353
2011	135,000	264,763
2012	140,000	258,890
2013	145,000	252,660
2014	155,000	246,063
2015-2019	895,000	1,112,625
2020-2024	1,165,000	867,113
2025-2029	1,520,000	534,281
2030-2032	1,140,000	118,900
Totals	<u>\$ 5,425,000</u>	<u>\$ 3,925,648</u>

B. First Mortgage Revenue Bonds, Series 2002

On August 1, 2001, the Carter County Justice Center Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center and obtaining office rental space for the AOC at the Justice Center. Subsequently, on July 1, 2002, the Carter County Justice Center Corporation issued First Mortgage Revenue Bonds in order to construct the Carter County Justice Center.

The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as agents for the AOC in order to plan, design, construct, manage, and maintain the Justice Center. The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commenced with occupancy of the Justice Center by the Administrative Office of the Courts. The AOC with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until March 1, 2022, but the lease does not legally obligate the Administrative Office of Courts to do so.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

B. First Mortgage Revenue Bonds, Series 2002 (Continued)

The bonds require semiannual interest and principal payments to be made on May 1 and November 1 of each year. The interest rate is variable ranging from 1.25% to 4.80%. The interest payments commenced on March 1, 2003, and the principal payments commenced on March 1, 2004. As of June 30, 2009, the principal amount outstanding was \$5,820,000. Bond payments for the remaining years are:

<u>Justice Center</u> Fiscal Year Ended June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 310,000	\$ 261,118
2011	320,000	249,698
2012	335,000	237,218
2013	350,000	223,818
2014	365,000	209,380
2015-2019	2,080,000	793,125
2020-2023	2,060,000	256,046
Totals	<u>\$ 5,820,000</u>	<u>\$ 2,230,403</u>

C. Kentucky Area Development District Financing Program

On October 9, 2003, the Carter County Justice Center Corporation entered into a 20-year lease agreement with the Kentucky Area Development Districts Financing Trust in the amount of \$380,000. The proceeds of the lease were used to fund a portion of the construction costs associated with the new Justice Center. A principal payment of \$170,000 was paid on May 28, 2004 with the remaining principal due annually commencing on December 1, 2006. The agreement requires semiannual interest payments at an average rate of 3.86 percent. The Administrative Office of the Courts is expected to pay the full amount of the principal and interest payments. The principal outstanding as of June 30, 2009 was \$155,000. Future principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 15,000	\$ 5,981
2011	10,000	5,610
2012	15,000	5,198
2013	10,000	4,759
2014	10,000	4,390
2015-2019	55,000	15,436
2020-2023	40,000	3,840
Totals	<u>\$ 155,000</u>	<u>\$ 45,214</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

D. Sheriff's Vehicles - 2005

On January 20, 2006, the fiscal court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of vehicles for the sheriff's office. The lease term is for four years, with the balance to be paid in full on July 20, 2009. The interest rate is 4.781%. The balance of the financing obligation at June 30, 2009 was \$17,914. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2010	\$ 17,914	\$ 55
Totals	<u>\$ 17,914</u>	<u>\$ 55</u>

E. Road Equipment

In October 2005, the county entered into a financing obligation agreement for \$148,034 with Kentucky Association of Counties Leasing Trust Program for the purchase of road equipment. Terms of the agreement stipulate a three-year repayment schedule, with variable monthly interest payments and variable annual principal payments. The interest rate during the fiscal year ended June 30, 2009 was 4.471%. The principal amount is due on July 20 of each year to end on July 20, 2008. As of June 30, 2009, the debt was paid in full.

F. Grahn Fire Department - Fire Truck

On March 7, 2005, the Carter County Fiscal Court entered into a \$93,000 agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of a fire truck. Terms of the agreement stipulate a ten-year repayment schedule, with variable interest payments and variable annual principal payments ending on July 20, 2015. The interest rate during the fiscal year ended June 30, 2009 was 4.383%. As of June 30, 2009, the principal balance remaining was \$67,996. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 7,682	\$ 2,318
2011	7,811	2,189
2012	8,140	1,860
2013	8,484	1,516
2014	8,843	1,157
2015	9,216	784
2016	<u>17,820</u>	<u>373</u>
Totals	<u>\$ 67,996</u>	<u>\$ 10,197</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

F. Grahn Fire Department - Fire Truck (Continued)

The Grahn Fire Department has agreed to make the principal payments for the term of the lease agreement. However, the Grahn Fire Department is under no binding agreement to make the required payments.

G. Hitchins Fire Department - Fire Pumper

On June 22 2006, the Carter County Fiscal Court entered into a \$140,000 agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of a fire pumper. Terms of the agreement stipulate a twelve-year repayment schedule, with variable interest payments and variable annual principal payments ending on July 20, 2017. The interest rate during the fiscal year ended June 30, 2009 was 4.591%. As of June 30, 2009, the principal balance remaining was \$104,958. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 6,231	\$ 3,769
2011	6,177	3,524
2012	6,434	2,980
2013	6,707	3,013
2014	6,991	3,009
2015-2018	72,418	7,380
Totals	<u>\$ 104,958</u>	<u>\$ 23,675</u>

The Hitchins Fire Department has agreed to make the principal payments for the term of the lease agreement. However, the Hitchins Fire Department is under no binding agreement to make the required payments.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

H. Norton Branch Fire Department – Fire Truck

On June 30 2006, the Carter County Fiscal Court entered into a \$148,000 agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of a fire truck. Terms of the agreement stipulate a fourteen-year repayment schedule, with 4.5% interest payments and variable annual principal payments ending on December 20, 2020. As of June 30, 2009, the principal balance remaining was \$123,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 10,000	\$ 6,169
2011	10,000	5,663
2012	10,000	5,155
2013	10,000	4,661
2014	10,000	4,159
2015-2019	50,000	13,248
2020-2021	23,000	1,588
Totals	<u>\$ 123,000</u>	<u>\$ 40,643</u>

The Norton Branch Fire Department has agreed to make the principal payments for the term of the lease agreement. However, the Norton Branch Fire Department is under no binding agreement to make the required payments.

I. Carter County Tactical Search-Rescue Service Inc. – Rescue Truck

On January 19, 2007, the Carter County Fiscal Court and the Carter County Tactical Search-Rescue Service signed a \$19,291 promissory note with the Commercial Bank of Grayson for the acquisition of a rescue truck. Terms of the agreement stipulate a five-year repayment schedule, with a 5% stated rate of interest and annual payments of \$4,392 beginning October 1, 2007 and ending on October 11, 2011. As of June 30, 2009, the principal balance remaining was \$11,960. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 3,794	\$ 598
2011	3,983	408
2012	4,183	209
Totals	<u>\$ 11,960</u>	<u>\$ 1,215</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

I. Carter County Tactical Search-Rescue Service Inc. – Rescue Truck (Continued)

The Carter County Tactical Search-Rescue Service Inc. has agreed to make the principal payments for the term of the loan.

J. Jail Canteen Equipment

On April 20, 2006, the Carter County Fiscal Court entered into a \$5,473 agreement for a New Holland tractor to be used by Jail Canteen Fund. The agreement calls for a monthly payment of \$152 at an interest rate of 5.0% beginning May 20, 2006, to be completed with a \$137 payment on April 20, 2009. As of June 30, 2009, the debt was paid in full.

K. Emergency Management Services Equipment

On April 20, 2009, the Carter County Fiscal Court entered into a \$100,000 lease agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of emergency management services equipment. Terms of the agreement stipulate a thirty-six month repayment schedule, with variable interest payments and variable monthly principal payments ending on April 20, 2012. The interest rate during the fiscal year ended June 30, 2009 was 4.181%. As of June 30, 2009, the principal balance remaining was \$94,677. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 32,502	\$ 3,100
2011	33,490	2,143
2012	28,685	738
Totals	<u>\$ 94,677</u>	<u>\$ 5,981</u>

L. Fire Truck

On June 1, 2007, the Carter County Fiscal Court entered into a \$95,000 lease agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of a fire truck. Terms of the agreement stipulate a ten-year repayment schedule, with variable interest payments and variable monthly principal payments ending on July 20, 2017. The interest rate during the fiscal year ended June 30, 2009 was 4.593%. As of June 30, 2009, the principal balance remaining was \$83,413. Future principal and interest requirements are:

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

L. Fire Truck (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 6,877	\$ 3,123
2011	6,921	3,079
2012	7,211	2,789
2013	7,516	2,484
2014	7,833	2,165
2015-2018	47,055	4,552
Totals	<u>\$ 83,413</u>	<u>\$ 18,192</u>

M. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation					
Improvement Bonds	\$ 5,550,000	\$	\$ (125,000)	\$ 5,425,000	\$ 130,000
Revenue Bonds	6,115,000		(295,000)	5,820,000	310,000
Financing Obligations (Restated)	670,900	100,000	(111,981)	658,919	100,000
Governmental Activities					
Long-term Liabilities	<u>\$ 12,335,900</u>	<u>\$ 100,000</u>	<u>\$ (531,981)</u>	<u>\$ 11,903,919</u>	<u>\$ 540,000</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Business-type Activities:</u>					
Financing obligations	\$ 1,509	\$	\$ (1,509)	\$	\$
Business-type Activities:					
Long-term Liabilities	<u>\$ 1,509</u>	<u>\$</u>	<u>\$ (1,509)</u>	<u>\$ 0</u>	<u>\$ 0</u>

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.5 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2009, Carter County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Prior Period Adjustments

Net Assets of the Governmental-Type Activities as previously reported have been restated for the following reasons:

- Net assets were restated by (\$90,032) because of \$90,032 in financing obligations that were not reported in the prior year.

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CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,353,000	\$ 1,353,000	\$ 1,394,099	\$ 41,099
In Lieu Tax Payments	10,000	10,000	30,849	20,849
Excess Fees	51,999	51,999	123,564	71,565
Licenses and Permits	37,500	37,500	37,526	26
Intergovernmental	644,480	694,480	598,476	(96,004)
Charges for Services	1,000	1,000	972	(28)
Miscellaneous	77,000	81,800	65,806	(15,994)
Interest	1,500	1,500	1,748	248
Total Revenues	<u>2,176,479</u>	<u>2,231,279</u>	<u>2,253,040</u>	<u>21,761</u>
EXPENDITURES				
General Government	1,232,686	1,272,687	1,151,450	121,237
Protection to Persons and Property	20,476	25,276	18,040	7,236
General Health and Sanitation	63,350	63,495	49,004	14,491
Recreation and Culture	19,000	69,000	18,000	51,000
Debt Service	6,700	6,700		6,700
Administration	432,603	392,457	334,307	58,150
Total Expenditures	<u>1,774,815</u>	<u>1,829,615</u>	<u>1,570,801</u>	<u>258,814</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>401,664</u>	<u>401,664</u>	<u>682,239</u>	<u>280,575</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(965,150)	(965,150)	(633,801)	331,349
Transfers From Other Funds	<u>228,486</u>	<u>228,486</u>	<u>137,801</u>	
Total Other Financing Sources (Uses)	<u>(736,664)</u>	<u>(736,664)</u>	<u>(496,000)</u>	<u>331,349</u>
Net Changes in Fund Balance	(335,000)	(335,000)	186,239	521,239
Fund Balance - Beginning	<u>335,000</u>	<u>335,000</u>	<u>346,001</u>	<u>11,001</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 532,240</u>	<u>\$ 532,240</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

Reconciliation of General Fund

Total Revenues - Budgetary Basis	\$ 2,253,040
Plus: Miscellaneous revenues for county debt paid by others	<u>10,232</u>
Total Revenues - Modified Cash Basis	<u><u>\$ 2,263,272</u></u>
 Total Expenditures - Budgetary Basis	 \$ 1,570,801
Plus: Expenditures for debt service paid by others	<u>10,232</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 1,581,033</u></u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,442,674	\$ 1,462,174	\$ 1,574,572	\$ 112,398
Miscellaneous	500	70,500	76,702	6,202
Interest	5,000	5,000	3,937	(1,063)
Total Revenues	1,448,174	1,537,674	1,655,211	117,537
EXPENDITURES				
Roads	1,294,888	1,382,174	1,239,837	142,337
Debt Service	55,000	67,214	48,239	18,975
Administration	300,000	290,000	227,161	62,839
Total Expenditures	1,649,888	1,739,388	1,515,237	224,151
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(201,714)	(201,714)	139,974	341,688
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(228,486)	(228,486)	(137,801)	90,685
Total Other Financing Sources (Uses)	(228,486)	(228,486)	(137,801)	90,685
Net Changes in Fund Balance	(430,200)	(430,200)	2,173	432,373
Fund Balance - Beginning	430,200	430,200	538,085	107,885
Fund Balance - Ending	\$ 0	\$ 0	\$ 540,258	\$ 540,258

Reconciliation of Road Fund

Total Revenues - Budgetary Basis	\$ 1,655,211
Minus: Refunds for road work reclassified against the related expenses	(70,030)
Add: Rounding Difference	1
Total Revenues - Modified Cash Basis	<u>\$ 1,585,182</u>
Total Expenditures - Budgetary Basis	\$ 1,515,237
Minus: Refunds for road work reclassified against the related expenses	(70,030)
Total Expenditures - Modified Cash Basis	<u>\$ 1,445,207</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts,	Final Budget
			(Budgetary	Positive
			Basis)	(Negative)
REVENUES				
Intergovernmental	\$ 1,168,950	\$ 1,243,950	\$ 1,602,303	\$ 358,353
Charges for Services	13,000	13,000	13,858	858
Miscellaneous	148,800	153,500	166,016	12,516
Interest	500	500	414	(86)
Total Revenues	<u>1,331,250</u>	<u>1,410,950</u>	<u>1,782,591</u>	<u>371,641</u>
EXPENDITURES				
Protection to Persons and Property	1,513,597	1,597,876	1,555,967	41,909
Debt Service	400,603	400,603	400,603	
Administration	401,200	396,621	372,762	23,859
Total Expenditures	<u>2,315,400</u>	<u>2,395,100</u>	<u>2,329,332</u>	<u>65,768</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(984,150)</u>	<u>(984,150)</u>	<u>(546,741)</u>	<u>437,409</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>934,150</u>	<u>934,150</u>	<u>602,801</u>	<u>(331,349)</u>
Total Other Financing Sources (Uses)	<u>934,150</u>	<u>934,150</u>	<u>602,801</u>	<u>(331,349)</u>
Net Changes in Fund Balance	(50,000)	(50,000)	56,060	106,060
Fund Balance - Beginning	<u>50,000</u>	<u>50,000</u>	<u>60,395</u>	<u>10,395</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 116,455</u>	<u>\$ 116,455</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Intergovernmental	\$ 546,545	\$ 546,545	\$ 540,630	\$ (5,915)
Charges for Services	85,000	85,000	85,543	543
Miscellaneous	350	350	461	111
Interest	750	750	591	(159)
Total Revenues	<u>632,645</u>	<u>632,645</u>	<u>627,225</u>	<u>(5,420)</u>
EXPENDITURES				
General Government	17,900	17,900	15,700	2,200
Protection to Persons and Property	364,300	378,570	372,298	6,272
General Health and Sanitation	85,500	89,112	87,565	1,547
Social Services	500	510	505	5
Recreation and Culture	87,500	87,500	41,500	46,000
Transportation Facilities and Services	48,845	48,845	48,845	
Debt Service				
Administration	159,100	141,208	109,925	31,283
Total Expenditures	<u>763,645</u>	<u>763,645</u>	<u>676,338</u>	<u>87,307</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(131,000)</u>	<u>(131,000)</u>	<u>(49,113)</u>	<u>81,887</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds				
Transfers From Other Funds	<u>31,000</u>	<u>31,000</u>	<u>31,000</u>	
Total Other Financing Sources (Uses)	<u>31,000</u>	<u>31,000</u>	<u>31,000</u>	
Net Changes in Fund Balances	(100,000)	(100,000)	(18,113)	81,887
Fund Balances - Beginning	<u>100,000</u>	<u>100,000</u>	<u>109,332</u>	<u>9,332</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 91,219</u>	<u>\$ 91,219</u>

CARTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

ENHANCED 911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 178,000	\$ 178,000	\$ 209,421	\$ 31,421
Intergovernmental Revenue	120,000	179,050	188,844	9,794
Miscellaneous Revenue			50	50
Interest	1,000	1,000	962	(38)
Total Revenues	299,000	358,050	399,277	41,227
EXPENDITURES				
Protection to Persons and Property	366,050	445,043	417,300	27,743
Debt Service			6,036	(6,036)
Administration	72,950	53,007	32,214	20,793
Total Expenditures	439,000	498,050	455,550	42,500
Net Changes in Fund Balances	(140,000)	(140,000)	(56,273) [▼]	83,727
Fund Balances - Beginning	140,000	140,000	191,345	51,345
Fund Balances - Ending	\$ 0	\$ 0	\$ 135,072	\$ 135,072

Reconciliation of E-911 Fund

Total Expenditures-Budgetary Basis	\$ 455,550
Plus: Expenditures for Purchase of Equipment	<u>100,000</u>
Total Expenditures - Modified Cash Basis	<u>\$ 555,550</u>
Other Financing Sources (Uses) - Budgetary Basis	\$
Plus: Proceeds from Financing Obligation	<u>100,000</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ 100,000</u>

CARTER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Justice Center Corporation Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**CARTER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2009

CARTER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	Forestry Fund	Community Development Block Grant Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 14,456	\$	\$ 14,456
Total Assets	<u>14,456</u>	<u></u>	<u>14,456</u>
FUND BALANCES			
Unreserved:			
Special Revenue Funds	14,456		14,456
Total Fund Balances	<u>\$ 14,456</u>	<u>\$ 0</u>	<u>\$ 14,456</u>

The accompanying notes are an integral part of the financial statements.

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CARTER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009

CARTER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	Forestry Fund	Community Development Block Grant	Total Non-Major Governmental Funds
REVENUES			
Taxes	\$ 3,868	\$	\$ 3,868
Intergovernmental		237,914	237,914
Total Revenues	<u>3,868</u>	<u>237,914</u>	<u>241,782</u>
EXPENDITURES			
Protection to Persons and Property	3,397	237,914	241,311
Total Expenditures	<u>3,397</u>	<u>237,914</u>	<u>241,311</u>
Net Change in Fund Balances	471		471
Fund Balances - Beginning	13,985		13,985
Fund Balances - Ending	<u>\$ 14,456</u>	<u>\$ 0</u>	<u>\$ 14,456</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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Jody B. Franklin

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The Honorable Charles Wallace, Carter County Judge/Executive
Members of the Carter County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 18, 2009. Carter County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Carter County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Carter County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Carter County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-3, 2009-4, 2009-5 to be significant deficiencies in internal control over financial reporting.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2009-3 to be a material weakness.

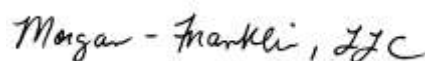
Compliance And Other Matters

As part of obtaining reasonable assurance about whether Carter County's financial statements, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2009-1 and 2009-2.

The Carter County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Carter County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Morgan-Franklin, LLC
December 18, 2009

**CARTER COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2009

**CARTER COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2009

FINANCIAL STATEMENT FINDINGS

2009-1 The County Should Pay Invoices Within Thirty Days Of Receipt Of A Vendor's Invoice As Required By KRS 65.140 And Improve Internal Controls Over Expenditures

Criteria: Per KRS 65.140, unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty working days of receipt of a vendor's invoice except when payment is delayed because the purchaser had made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor. An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty days which followed receipt of vendor's invoice by the purchaser.

Effect: Of the twenty-five disbursements tested, fifteen invoices were paid later than the thirty-day requirement.

Cause: The late payment of the above invoices, indicate the Fiscal Court has a material weakness in its internal controls over accounting for expenditures. Either the controls in place are not working as planned or management has chosen to ignore or override the controls in place. Our documented understanding of the controls is that all invoices received in the County Judge/Executive's Office be included on the payments list prepared by the Judge/Executive's staff and along with the invoices, delivered to the County Treasurer's Office for review before being presented at the Fiscal Court meeting for approval.

Recommendation: We recommend the Fiscal Court implement procedures to ensure that all invoices received in Judge/Executive's Office are put on the payments list that is to be delivered to the County Treasurer for review before submission to the Fiscal Court for approval. In addition, we recommend that if the Fiscal Court decides not to pay an invoice that has been outstanding for (30) working days that they comply with the requirements of KRS 65.140 (2) by documenting the basis for the delayed payment of the invoice.

County Judge Executive, Charles Wallace's Response: The Fiscal Court meeting is held once a month, the last day of every mo. All bills have to be turned in so we can get them ready to be approved by magistrates at the Fiscal Court meeting. If bill or invoice comes in late or doesn't have a PO no# on inv. it must be resubmitted and that can prolong the payment up to 90 days.

**CARTER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2009
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2009-2 The Fiscal Court Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

Criteria: Per KRS 68.005, the fiscal court shall adopt a county administrative code, which includes, but is not limited to, procedures and designation of responsibility for county purchasing and awarding of contracts. Furthermore, the fiscal court shall review the county administrative code annually during the month of June and may by a two-thirds majority of the entire fiscal court amend the county administrative code at that time.

Effect: Noncompliance with KRS 68.005.

Cause: Lack of understanding the applicability of the Administrative Code. The Administrative Code contains guidance on issues such as procurement that are not addressed in other county documents such as the Union Contract or the Personnel Policies and Procedures Manual.

Recommendation: We recommend that the fiscal court review the administrative code annually, as required by KRS 68.005.

County Judge Executive, Charles Wallace's Response: We review Adm. Code every year in May, at that time we make changes or decide to keep things the way they are.

Auditors' response: There was no indication in the official fiscal court minutes that the Administrative Code was reviewed or approved for the fiscal year 07/01/08 – 06/30/09.

2009-3 The Fiscal Court Lacks Adequate Segregation Of Duties

Criteria: Adequate segregation of duties prevents the same person from having a significant role in each function of a particular process.

Effect: As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts collection and processing, record-keeping, disbursement processing, report preparation and reconciliations.

Cause: The County Treasurer prepares and deposits the receipts, posts to the ledger and prepares reports from these ledgers for submission to the Department for Local Government (DLG), and performs the bank reconciliations.

The County Treasurer performs all aspects of the payroll process. During our subsequent review, we noted that many payroll related checks had cleared the bank with only one signature even though KRS 68.275 requires all claims against the County be paid by the County Judge/Executive by a warrant drawn on the county and co-signed by the County Treasurer.

All invoices are received and maintained by the office manager or office clerk. The office manager or the office clerk prepare the disbursement checks and cancels the invoices.

**CARTER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2009
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2009-3 The Fiscal Court Lacks Adequate Segregation Of Duties (Continued)

Recommendation: To adequately protect the fiscal court against inaccurate financial reporting, we recommend the fiscal court separate the duties in preparing and depositing receipts, recording transactions, preparing reports, disbursement processing and reconciling bank accounts. If any of these duties cannot be segregated due to limited number of staff, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this.

More specifically, we recommend:

- that the Treasurer prepare deposits and then have the office manager double check the deposit and initial the deposit slip. The office manager should then physically take the deposit to the bank.
- that someone independent of every aspect of the receipt and disbursement process receive at central mailing address all County mail. This person shall open all mail and prepare a list of all mail received. This list shall be distributed to the County Judge/Executive and County Treasurer. If this is not possible, we recommend that all receipts be received by the Judge/Executive's office and that every County receipt be timely remitted to the County Treasurer for deposit. We also recommend all invoices be received by the County Treasurer; who shall prepare a listing of all invoices received. These invoices shall be timely remitted to the County Judge/Executive's office staff.
- that all checks be signed first by the treasurer, given to the Judge/Executive to sign and then to the office manager so she can review the checks to ensure both signatures are present and prepare them to mail.

County Judge Executive, Charles Wallace's Response: The Judge Exe. has asked for many years that a finance officer be hired to keep everything in checks and balances.

**CARTER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2009
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2009-4 The Carter County Treasurer Should Code All Debt Expenditures To A Debt Account Code And Liability Schedules Should Be Complete And Accurate

Criteria: County's are required to record receipts and expenditures in accordance with the Budget Manual provided by the Department of Local Government and to include a complete and accurate liabilities schedule with their quarterly reports submitted to the Department of Local Government.

Effect: Failure to utilize the appropriate account codes and to have a complete and accurate liabilities schedule could mislead financial statement users.

Cause: Failure to record receipts and expenditure in accordance with the Budget Manual provided by the Department of Local Government and to prepare a complete and accurate liabilities schedule.

Recommendation: We recommend the County Treasurer ensure that debt payments are posted to the correct account codes in the future. The County Treasurer should consult the Budget Manual provided by the Department of Local Government to determine the appropriate account codes for revenues and expenditures. Furthermore, the County's liability schedules should be complete and accurate. We further recommend that the Office Manager review the liabilities schedule prior to its submission to the Department of Local Government.

County Judge Executive, Charles Wallace's Response: All comes out of Treasurer's office.

2009-5 The County Should Comply With The Administrative Code, Personnel Policy And Procedures And The County's Agreement With The International Union Of Operating Engineers Local 181 (Union Contract) And Clearly Define Which Policies Apply To Which Employees

Criteria:

- Pursuant to the County's Administrative Code, each employee shall keep a daily record of his/her own time which is validated by the immediate supervisor on a semi-monthly basis.
- It is the County's policy that all employees use time clocks to provide an accurate record of time worked.
- Pursuant to the County's Personnel Policy and Procedures, time off with pay may not be considered as hours worked for overtime pay purposes.
- Pursuant to the Personnel Policies and Procedures, non-supervisory full time employees shall work no less than thirty-six hours per week.
- Pursuant to the County's Union Contract, holiday pay shall equal eight hours of pay at the employee's straight time hourly rate.
- Pursuant to the Union Contract, eight hours work shall constitute a days work unless the job is set up on a four day, ten hour work schedule.

**CARTER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2009
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2009-5 The County Should Comply With The Administrative Code, Personnel Policy And Procedures And The County's Agreement With The International Union Of Operating Engineers Local 181 (Union Contract) And Clearly Define Which Policies Apply To Which Employees

(Continued)

Effect: During our payroll testing, we tested 12 employees and noted the following:

- Seven employees did not have a supervisor's signature on their time sheet.
- two instances where a supervisor's signature was 'whited' out after the time sheet had been signed.
- Two instances in which time clocks were not being used.
- Two instances where an employee was paid overtime in a week in which a holiday and/or sick time was used and the employee did not physically work over 40 hours.
- One instance where an employee did not receive overtime pay when he had physically worked over forty hours.
- Two instances in which employees did not work the required hours per the County's Union Contract and still received full salary.
- Employees that appear to be bargaining unit members per the Union Contract do not appear to be paying union dues.

Not clearly defining which regulations employees are governed by may result in incorrect compensation being paid.

Cause: Failure to determine which regulations apply to different employees and to comply with the Administrative Code, the Personnel Policy and Procedures and the County's agreement with the International Union of Operating Engineers Local 181.

Recommendation: We recommend the County Attorney provide an opinion on the applicability of the Administrative Code, Policies and Procedures, and the Union Contract for employees and that the County comply with the terms of each agreement as required.

County Judge Executive, Charles Wallace's Response: Local Union #181 – Contract is due up 2010. County will clarify in next union contract which policies apply to which employees. Carter Co Fiscal Court approves this in 2010.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**


CARTER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2009**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CARTER COUNTY FISCAL COURT

For The Year Ended June 30, 2009

The Carter County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Charles Wallace
County Judge/Executive



Cindy Lowe
County Treasurer

